Finance Review Team Evaluation
May 31, 2017

OAK VIEW GROUP

A. Provide a world-class civic arena (the "Arena") to attract and present music, entertainment, and sports events, potentially including NBA and NHL events, to Seattle and the region.

Oak View Group (OVG) and its partners (i.e. The Madison Square Garden Company) appear to have the experience, capability, and resources to contribute significant equity and secure the financing it requires to provide a world-class civic arena. While OVG is a relatively new company (formed in 2015), its principals, partners, and lender have decades of experience building, operating, and financing comparable world-class arenas with municipalities in the U.S. and around the world. However, while the individual members of the proposer group have experience in their respective areas of expertise, OVG as an entity does not currently own or operate any arenas. This is an identified risk.

An in-depth financial analysis of the company and its partners has not been conducted, but with OVG's principals' experience and financial support from The Madison Square Garden Company, we can reasonably assume that OVG and its partners would have a good chance to secure the construction and long-term debt necessary to construct and operate the arena. Additionally, it seems to be a reasonable assumption that this group could raise and contribute equity to the project in excess of $277 million, as currently proposed.

Prior to signing an agreement with OVG, the Finance Review Team recommends a more in-depth financial review of the entity and its partners.

B. Provide for Project design and Arena operations in a manner that integrates with and enhances connections to Uptown and adjoining neighborhoods and aligns with the Urban Design Framework ("UDF").

No Finance Review Team comments anticipated.

C. Provide for design, permitting, development, demolition (if applicable), and construction of the Arena (the "Project") with minimal City financial participation.

OVG provided the following sources and uses statement:

Sources		Uses	
Owner's Equity	$277,200,000*	Construction/Design	$485,000,000
ArenaCo Takeout Financing	196,900,000*	Parking Garage	25,000,000
Historic Tax Credits	50,000,000	Interest During Construction	12,500,000
City Tax Reinvestment of Arena Revenues	40,000,000	Cost of Loan Issuance	11,200,000
		Debt Service Reserve Fund (Takeout Financing)	14,100,000
		Contingency	16,300,000
Total Sources	**$564,100,000**	**Total Uses**	**$564,100,000**

** Should there be an NHL or NBA team as an anchor tenant, the debt capacity could potentially increase by as much as $100 million – $150 million and would likely be used to decrease owner's equity.*

The City's Design/Constructability Team is doing the financial assessment related to the appropriateness and feasibility of the construction budgets.

A major strength of OVG's construction financing proposal is that it does not require City financing (i.e. no bonds issued or new taxes proposed). However, there is a request for City reinvestment of the incremental tax revenue derived from the arena, which would be invested annually, and for the City to allow OVG to operate all three of Seattle Center's other parking garages and develop a revenue-sharing agreement with the City.

On the revenue side, the City would generally receive the same level of tax revenues related to the arena and parking it currently receives, and OVG would also provide the same level of parking revenue (e.g. based on a trailing average of prior years and adjusted for inflation). However, as noted above, the incremental taxes and parking revenue amount above a to-be-determined baseline would be invested into the project or captured by OVG. If the proposal is selected, there may be an opportunity to further refine the revenue streams.

The ability to secure financing will rely on the projected revenue generated by the arena for OVG as its lender, Goldman Sachs, will encumber the leasehold interest in the property. In Section D, the team notes that revenue projections appear to be optimistic. The team continues to evaluate tax and revenue implications as more detailed information is provided by the proposer. See Section D for more operational revenue details.

Private Financing Details

Some current leaseholders at Seattle Center have private financing related to their operations. Center expects that a private financing package for OVG would not obligate the City to any greater extent than do current arrangements. The private financing is proposed as follows:

- $196.9 million permanent loan/bonds with a 25 year term
- Backloaded debt service payments: $12.75 million in year 1 and increasing 2% per year
- The City's contribution to the OVG debt payment or operations would begin in the first year of arena operations.

Historic Tax Credits

OVG proposes using the Federal historic tax credit program to offset its capital contribution. The proposal estimates equity received from the tax credits to be $50 million. OVG's historic tax credit consultant has been working to ensure the project is eligible for the National Register of Historic Places, an eligibility requirement for the tax credits. The Washington State Department of Archaeology & Historic Preservation concurs the building is eligible for listing in the National Register of Historic Places. A preliminary decision letter from the department is included in the OVG proposal.

OVG obtained Federal historic tax credits on the reuse of The Forum in Los Angeles and is using the same consultant for the KeyArena project. While it appears OVG is capable in securing these tax credits and structuring them in a way to get equity into the project sooner rather than later, OVG also wrote it would provide the $50 million in equity upfront, thereby removing the risk of not securing the necessary capital for the project in time.

Preservation Controls and Incentives

To decrease its equity stake, OVG proposes exploring other financial incentives, including funds associated with landmark designation economic incentives, such as the sale of landmark transferable development rights (TDRs). For KeyArena, TDRs may not be a viable option as (1) Uptown does not currently have that option but it could be created with an up-zone as part of an incentive zoning program; (2) if implemented, the incentive zoning program would be relatively small; (3) if the arena sold its TDRs, which cannot be transferred outside of Uptown, it would flood the market and likely drive the values down. More information would be needed in order to evaluate this aspect of the proposal and other incentives proposed.

Deposit

OVG proposes a $100,000 deposit upon execution of the Lease Agreement and Development Agreement. On a roughly half-billion-dollar project, this deposit amount is low. This is a weakness in their proposal.

D. Provide for the continuous, successful, sustainable operation of the Arena as a world-class civic venue with minimal City financial participation.

Overall, the operating proforma is optimistic for a building without an NBA or NHL franchise as an anchor tenant. The sponsorship and premium seating revenue estimates appear to be especially optimistic but not necessarily impossible to achieve. Recent financial commitments OVG made since the original submission of the proposal (e.g. $2 million for the monorail) are not reflected in the original capital budget, projected debt service, or operating costs.

The projected naming, sponsorship, and premium seating revenues account for 59% of total revenues. In 2015, AECOM prepared a report estimating arena revenues and expenses for a modernized KeyArena and a renovated arena with (a) an NBA team or (b) an NBA and NHL team. The table below provides a comparison of OVG's proposal, KeyArena's current revenues, and AECOM's projected revenue estimates.

($000s)	Oak View Group No NBA or NHL (Year 1)	KeyArena (2016)	AECOM Modernized Arena, No NBA, NHL (2020)	AECOM Upgraded Arena w/ NBA, or NBA and NHL (2020)
Naming	5,000	0	1,177	3,000 or 5,000
Sponsorship	7,500	355	358	6,000 or 8,000
Premium Seating	9,500	1,550	992	Team controls
Total	**22,000**	**1,905**	**2,527**	**9,000 or 13,000**

Some additional proforma notes:

- The $25 million proposed investment from the Port of Seattle for the parking garage is uncertain. OVG notes they are committed to finding a solution if the Port does not provide funding and will not ask the City to fund the garage.
- To date, OVG has provided minimal event projections and assumptions, so thorough evaluation is difficult.

- Expense projections are lower than the other proposal while the projected number of events is higher than the other proposal.
- Seattle Storm, Bumbershoot, and the Seattle/King County Medical Clinic will be accommodated. Seattle University will not play at the arena.

City Financial Support for Operations

While the City is not being asked to provide upfront capital for the project, the City would provide financial support over the life of the project. The City would:

- Essentially provide use of the land and facilities rent free for the length of the agreement: 35-year initial term and five, 10-year extensions. Rent is proposed but paid by incremental taxes. OVG further clarified its proposal and indicated a willingness to negotiate these terms further.
- Contribute incremental tax revenues generated by the facility for the length of the agreement. OVG identifies this amount as $40 million in its sources and uses.
- Transfer control and management of all Seattle Center parking garages to OVG and forego all parking revenue growth from the $4 million net revenue.

Sustainable Operation – Reserves

A capital reserve account is established with regular, ongoing contributions. OVG also commits to funding any other modernization efforts that will exceed funds held in the reserve account.

E. Provide for mitigation of transportation impacts due to Project construction and Arena operations.

No Finance Review Team comments anticipated.

F. Provide Project construction and Arena operations in a manner that is equitable for workers and consistent with the City's Race and Social Justice Initiative.

No Finance Review Team comments anticipated.

G. Provide for Project design and Arena operational integration with Seattle Center, contributing positively to the vibrancy of Seattle Center.

While OVG 's commitment to make a significant contribution to the community through a new not-for-profit organization is laudable, OVG's efforts to integrate with Seattle Center and address the needs and interests of tenants, users, and the community appears to be a weakness in their proposal, supported by the following notes:

- OVG proposes taking over management of Seattle Center's two other garages with net revenue of approximately $4 million. Parking revenue accounts for more than 20% of Seattle Center's earned revenues, and parking and traffic are one of the biggest issues for resident tenants. Primary concerns are:
  - Ensuring that pricing and management of the garages considers the needs and requirements of all the organizations at Seattle Center, not just arena management.

    - Loss of sustained parking revenue growth above current levels.
- Blue Spruce tenants are not relocated, although up to $500,000 in funding is committed to help relocation efforts.
- Although funding and relocation assistance are offered, the future location of Pottery Northwest and the Gardener's Complex are not identified. The proposed building on the South Site current site is not funded in the construction budget and neither revenues nor expenses are included in the proforma. Because the site is not necessary for the success of the arena, offering the proposer use of the site could be reconsidered.
- OVG offers to assist in the relocation efforts for the skateboard park but siting at Seattle Center appears unlikely.